

VZCZCXRO7393  
RR RUEHBC RUEHDA RUEHDE RUEHIHL RUEHKUK  
DE RUEHGB #3310/01 2780507  
ZNR UUUUU ZZH  
R 050507Z OCT 07  
FM AMEMBASSY BAGHDAD  
TO RUEHC/SECSTATE WASHDC 3700  
INFO RUCNRAQ/IRAQ COLLECTIVE

UNCLAS SECTION 01 OF 03 BAGHDAD 003310

SIPDIS

SENSITIVE  
SIPDIS

E.O. 12958: N/A

TAGS: [ECON](#) [ETRD](#) [EMIN](#) [IZ](#)

SUBJECT: EPRT AL ASAD - STATE-OWNED ENTERPRISES IN WESTERN AL ANBAR

[¶1.](#) (U) SUMMARY: The State-Owned Enterprises (SOE) in Western Al Anbar Province are under considerable strain to achieve even modest production goals. The availability of raw materials, fuel, and stable electricity are primary factors in lagging production for products that have a substantial economic impact to the province and the country. Resuming operation of the Iraqi Railroad (IRR), coupled with restoration of oil refining operations and distribution at the K-3 refinery south of Hadithah, would have a significant impact on the ability of SOEs to increase production. END SUMMARY

#### The Al Qaim Phosphate Plant

-----

[¶2.](#) (SBU) The Al Qaim Phosphate Plant started construction in 1976 and began operations in 1984. The product from this plant is highly desired and has significant export potential. Production has been disrupted since 1991 when sanctions interfered with receipt of materials and maintenance items. Ensuing conflict and past instability in the region has continued to depress production capacity.

[¶3.](#) (U) The Phosphate Plant is actually a combination of several production facilities all within one compound. These are: phosphoric acid, sulfuric acid, ammonia, three types of fertilizer, aluminum fluoride/cryolite, and freon production. Only half of these are operational, namely the phosphoric acid, sulfuric acid, and 3 types of fertilizer. For all intents and purposes, fertilizer (triple sodium phosphate, mono-amino phosphate, and nitrogen phosphate) is the only remaining product from the plant.

[¶4.](#) (U) The plant purchases most all of its minerals for making fertilizer. Phosphate rock comes from the Akashat mine, sulfur from Mishraq and Kirkuk, ammonia and urea from Basrah, and potassium chloride from Jordan. The inability to use the railroad to transport raw material is a prime factor contributing to decreased production. Combined with electrical power shortages (only half the MWs required are being provided, i.e., 15 versus 30MW) the productivity is now only 10% - 30% of capacity. While 15MW is enough for much higher production the shortage of materials is the main limiting factor at this time.

[¶5.](#) (SBU) The US Army Corps of Engineers will soon finish with electrical work (substations) that will have the potential to stabilize much of the power to the plant. While the work will provide added stability to the supplied power there is not expected to be a gain in actual megawatts provided until the Hadithah Dam begins generating more power. The dam must be given higher priority in terms of GoI funds for capital investment and major maintenance.

[¶6.](#) (U) Special interest is being focused on getting the railroad lines cleared so that raw materials can be received and finished product moved to market. Recently, multiple test runs have been done and a crane is being sought to move 6 derailed cars off the tracks near Camp Al Qaim. The IRR has stalled on this issue for more than one year. An operational railroad will give the phosphate plant access to more raw materials to enhance production but IRR must cooperate and get the crane out to the area.

[¶7.](#) (U) The viability of the Akashat mine to meet production demands

is questionable as well. The mine (located 150km away) is having problems. They use a water system in the mining process and the pressure does not allow full use; they have resorted to manual labor to jackhammer phosphate rock for extraction. There are apparently many taps and pressure losses along the pipeline route. While the water treatment plant that is part of the phosphate plant generates 1,000M3/hr. Half of this is distributed to Karabilah and the rest to Akashat, New Obeidi, and the T1 pumping station. The system requires repair to allow the mine to meet production demands. There exists the possibility of using explosives to disengage phosphate rock and the Anbari authorities in May 2007 to submit a letter to the Prime Minister's office requesting cooperation of MNF-I in acquiring them. The Prime Minister's office forwarded the letter to MNF-I four months later. It has been retrieved and a response letter is now in the process of staffing in MNF-I.

¶8. (U) The plant is operating 24 hours per day but using a limited workforce given the decreased production levels. Of 4,000 employees on record only 1,250 are currently working. The remaining employees are on salary with reduced benefits. With stability in the region at an all time high it is crucial to move forward with advancements in the industrial capability so evident in this region.

#### The Al Qaim Cement Plant

¶9. (U) Not far from the phosphate plant is the Al Qaim Cement Plant. One of three cement plants in Al Anbar, the Al Qaim plant is most valued for its highly sulfur resistant cement. The plant was built by a Romanian construction company and began operations in ¶1989. The plant has a current staff of approximately 960 personnel. The plant operates one production line 24 hours per day using three shifts.

¶10. (SBU) The plant manager has identified three factors that if

BAGHDAD 00003310 002 OF 003

tackled would result in an increase in production, namely: power, fuel, and transportation. Currently, the plant is running at approximately 1/3 capacity but is drawing 10MW out of a requirement for 20MW at full capacity. While power is fairly regular there are fluctuations that affect the normal processing of the cement down the line. Ten days ago power to the plant was reduced and the plant has shut down operations entirely. This is a critical issue and is being worked now at MNF-W and the Anbar PRT. Power redistribution must be coordinated to allow resumption of this vital industry. The new 400KV station at Camp Al Qaim and three new/reworked 132KV sub-stations (one of which is at the Phosphate plant) will provide more power for the SOE but only once more megawatts are pushed from the dam. The new electrical stations will at least provide more stable power with less fluctuation in the voltage/ampereage.

¶11. (U) As for fuel; a steady supply of fuel is critical for the plant to be successful and the requirement is approximately 250K liters per day. While it is more expensive to truck in fuel the plant has indicated they are not losing trucks to piracy at this time. The K-3 refinery must be put back on-line to allow enough steady fuel to maintain operations. The plant is experiencing significant cost growth in expenses for transportation as a result of the rail lines being shut down. Trucking in materials and trucking out finished product is a high cost of doing business. The train line must be made functional in order to see a significant benefit from increased production.

#### The Kubaysah Cement Plant

¶12. (U) The Kubaysah Cement Plant is the second of two plants operating in Western Al Anbar. The factory was built in 1982 by a Japanese company. Approximately 1,150 workers are employed at the plant with 950 of these as engineers and technicians.

¶13. (U) There are two production lines in this factory; each contains a two step production process: one to break the clay down and mix it with limestone and gypsum and the other to complete the final production process of drying and mixing and packaging the cement. Whereas the plant used to manufacture their own bags, a shortage of paper has forced them to purchase bags from external

sources. They do not envision restarting this bag making facility.

¶14. (U) The factory manufactures a type 2 Portland cement. The factory operates on a design capacity of 2M tons/yr but is currently only producing 20-30K tons/month or approximately 300K tons/year. Reasons for the dramatic underproduction are attributed to the following, in priority order:

a. Electricity shortages. The factory is only getting about 25% of its needed electricity requirement of 50MW. The flow of electricity is unstable, not continuous and the voltage varies.

b. Fuel. The factory uses about 5 million liters per month of fuel oil which yields 20 productive days of work. Deliveries can be sporadic and irregular. The furnaces can operate on the waste oil products of the K-3 refinery or any other refinery (Baji/Samarra). Unfortunately, the K-3 refinery is not in operation. At full capacity the factory will consume about 12 million liters of fuel per month. Regular fuel deliveries must occur to sustain production.

c. Spare Parts. The factory has a modest spare parts budget and this is derived from production sales which have been down. This has created a significant spare parts problem and resulted in cannibalization of one production line to help maintain the other. Both furnaces are long overdue for a complete maintenance overhaul. One is inoperative and two of four electric motors used to turn the mixing drums are inoperative. Cost estimates run up to \$5M for standard maintenance and another \$5M to purchase 10 new electric motors; a few of which would be backup motors. Per the plant manager, if parts and electricity were restored they would be able to operate the plant at near full capacity without additional personnel.

¶15. (U) The Iraqi State Cement Company is the central control point for all cement plant operations in the province. They set spending limits for each plant manager for parts, supplies, major repairs, etc. Their tendency is to be unresponsive to plant manager requirements. The Company makes all the orders for parts, fuel deliveries and/or other contract work as needed based on inputs from the plant managers. Unfortunately, the cheapest possible parts are usually ordered and this leads to additional maintenance and breakdown problems downstream.

¶16. (U) Link to K3 Refinery: If this refinery were running, the waste fuel would be excellent for use in the furnaces of the cement plants in Kubaysah and Al Qaim. As such, the plant likely wouldn't have a fuel problem if, in addition, the IRR were running. As oil is refined and the useable products like propane, kerosene, benzene, light oils, etc., are extracted. The residual waste fuel oil is ideal for use in the furnaces. A synergy exists between the refinery, the IRR, and the cement factory production process.

COMMENT

-----

BAGHDAD 00003310 003 OF 003

¶17. (SBU) The SOEs in Western Al Anbar have high potential, not as the current employer of over 6,000 Anbaris, but as a factor in the overall economic growth and reconstruction of the country through fertilizer for agricultural advancement and cement for infrastructure repairs and new construction. The three crucial linchpins to increased success in this province will require high level Iraqi central government action to restore operations at the K-3 refinery, the Iraqi Railroad, and to implement major repairs to the Hadithah dam for increased generation of electricity for western Al Anbar and the SOEs.

¶18. (U) Drafted by EPRT Al Asad Business Specialist, Jay Cooper. Coordinated with RCT-2, MNF-W, and the Anbar PRT.

Crocker